



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence

# **Great Kei Local Municipality**

## **Audit Report**

For the year ended 30 June 2018

# Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Great Kei Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Great Kei Local Municipality set out on pages XXX to XXX, which comprise statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amount for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Great Kei Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2013 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2017 (Act No.3 of 2017) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Material uncertainty relating to financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 41 to the financial statements, which indicates that the municipality incurred a net loss of R21 million (2016-17: R51 million) during the year ended 30 June 2018 and, as of that date the municipality's current liabilities exceeded its current assets by R41 million (2016-17: R26 million). As stated in note 41, these events or conditions, along with other matters as set forth in the same note, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. As further stated in the same note, the Provincial Executive Committee invoked section 139(b)(c) of the Municipal Systems Act and put the municipality under administration. An administrator was seconded to the municipality by the Department of Co-operative Governance and Traditional Affairs (CoGTA).

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Debt Impairment: receivables from exchange and non-exchange transactions**

9. Material debt impairment of R39,8 million (2016-17: R31,9 million) and R47,4 million (2016-17: R39,4 million) on receivables from exchange and non-exchange transactions respectively were disclosed in note 4 and 5 to the financial statements.

### **Unauthorised expenditure**

10. As disclosed in note 43 to the financial statements, unauthorised expenditure of R18,7 million (2016-17: R28,3 million) was incurred in the current year due to inadequate budgeting and monitoring of expenditure.

### **Irregular Expenditure**

11. As disclosed in note 45 to the financial statements, irregular expenditure of R2,6 million (2016-17: R1,6 million) was incurred in the current year due to non-compliance with procurement prescripts and regulations.

### **Fruitless and wasteful expenditure**

12. As disclosed in note 44 to the financial statements, fruitless and wasteful expenditure of R1,8 million (2016-17: R632 369) was incurred in the current year due to interest and penalties charged on overdue account payables.

### **Restatement of corresponding figures**

13. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors only discovered during the year ended 30 June 2018.

## **Other matter**

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

## **Responsibilities of accounting officer for the financial statements**

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
KPA 1: Service Delivery and Infrastructure Provision	x – x
KPA 2: Local Economic Development	x – x



23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

### **KPA 1: Service Delivery and Infrastructure Provision**

SD09-01-Number of additional households provided with weekly refuse removal (Output)

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target "18 additional households". This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of "Not achieved. Increase Collection points by 8 households" as reported in the annual performance report.

### **KPA 2: Local Economic Development**

LED02-01-Number of job opportunities created through EPWP, CWP and MIG projects (output)

26. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target "500 jobs created". This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of "205-EPWP, 94-MIG, 550 CWP" as reported in the annual performance report.

### **Other matters**

27. I draw attention to the matters below.

### **Achievement of planned targets**

28. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 24 to 25 of this report.

### **Adjustment of material misstatements**

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1: Service Delivery and Infrastructure Provision and KPA 2: Local Economic Development. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are reported above.

### Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
31. The material findings on compliance with specific matters in key legislations are as follows:

### Annual financial statements, performance and annual report

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### Expenditure management

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,9 million, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties charged because of late payments of suppliers.
35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R18,7 million as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by inadequate budgeting in respect of non-cash items.

### Human resource management

36. Four senior managers were appointed without the posts being advertised within 14 days of receipt of the council approval, as required by regulation 10(2) on appointment and conditions of employment of senior managers.

### Procurement and contract management

37. One contract was awarded to a bidder that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the Construction of Thembaletu/ Peace Village Internal Streets.
38. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required

by the 2017 preferential procurement regulation 8(2). This non-compliance was identified in the procurement processes for the Supply and Delivery of Electrical Cables.

### Consequence management

39. I was unable to obtain sufficient appropriate audit evidence that losses resulting from unauthorised, irregular, fruitless and wasteful expenditure were recovered from the liable person, as required by section 32(2) of the MFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into unauthorised, irregular, fruitless and wasteful expenditure.

### Strategic Planning and Performance

40. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

### Other information

41. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development objectives presented in the annual performance report that have been specifically reported in this auditor's report.
42. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
43. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

### Internal control deficiencies

45. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.



46. Instability in leadership combined with insufficient financial resources created considerable strain on the internal operations and controls of the municipality which resulted in a lack of coordination between directorates, inadequate staffing in critical directorates and an overreliance on few dedicated employees to compile the financial statements and audit reports. This resulted in material errors in both the financial statements and performance reports being reported, as well as material non-compliance findings.
47. Daily, monthly and quarterly controls were inadequate to maintain an adequate filing system for efficient retrieval of supporting documentation that agrees to the financial and performance records of the municipality. The directorates of the municipality operate separately which could result in delayed reporting and potentially impact service delivery.
48. The municipality continued to incur unauthorised, fruitless and wasteful as well as irregular expenditure during the year with no supporting evidence that adequate follow up and investigations had occurred for these types of expenditure reported in previous financial years. The backlog of investigations could limit the resources available to those charged with governance to adequately carry out their duties in this regard.

### Other reports

49. I draw attention to the following engagement conducted by third parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This engagement did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

### Investigation

50. There is an ongoing investigation at year end being conducted by CoGTA into alleged misconduct at the municipality.

*Auditor General*

Auditor-General

East London

21 December 2018



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SOUTH AFRICA

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## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Great Kei Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

